

**TWENTY-FIFTH ANNUAL REPORT  
2006-2007**

**OF  
THE**

**RESIDENTIAL UTILITY CONSUMER OFFICE  
(RUCO)**



**Serving the Arizona Residential Utility Consumer  
Since 1983**

## TABLE OF CONTENTS

DIRECTOR'S LETTER.....	1
RUCO ADMINISTRATIVE AND SUPERVISORY PERSONNEL .....	2
RUCO'S ORGANIZATION CHART .....	5
RUCO AND THE REGULATORY PROCESS.....	6
THE RATEMAKING PROCESS.....	6
RUCO BUDGET .....	8
RUCO'S FUNDING MECHANISM .....	9
RUCO'S CASE ANALYSES AND INTERVENTIONS .....	9
RUCO'S IMPACT .....	9
CONSUMER EDUCATION AND OUTREACH ACTIVITIES .....	10
ON-GOING CASES .....	11
CASES CLOSED IN FY 2007 .....	27
THE RESIDENTIAL UTILITY CONSUMER OFFICE STAFF .....	41
APPENDIX .....	42



**DIRECTOR'S LETTER**  
**RESIDENTIAL UTILITY CONSUMER OFFICE**

---

1110 WEST WASHINGTON STREET • SUITE 220 • PHOENIX, ARIZONA 85007 • (602) 364-4836 • FAX: (602) 364-4846

Janet Napolitano  
Governor

Stephen Ahearn  
Director

October 31, 2007

The Honorable Janet Napolitano, Governor  
The Honorable Timothy Bee, President, Arizona Senate  
The Honorable Jim Weiers, Speaker, Arizona House of Representatives

**Re: Fiscal Year 2007 RUCO Annual Report**

Dear Governor, President and Speaker:

I am pleased to report the activities of RUCO for the period ending June 30 of this year.

This has been another successful year for our advocacy before the Arizona Corporation Commission. RUCO actively participated in numerous lengthy and complex rate case litigations and successfully advocated residential consumer positions that were reflected in the Commission's ultimate decisions in those cases.

We realize that RUCO is no longer required to assemble Annual Reports. However, we continually capture data about our activities in an effort to improve our agency performance and in anticipation of future audits and requests for historical agency information. Our continuing to publish this report is a simple and efficient method to memorialize this collection of recent agency data, and requires virtually no incremental time or expense to compile.

Sincerely,

*Stephen Ahearn*

Stephen Ahearn

SA:hs

## **RUCO ADMINISTRATIVE AND SUPERVISORY PERSONNEL**

### **DIRECTOR**

Stephen Ahearn was appointed by Governor Janet Napolitano as Director of the Arizona Residential Utility Consumer Office (RUCO) on January 6, 2003. He is a native Arizonan, born on Davis-Monthan Air Force Base in Tucson, and raised in Phoenix. He received his undergraduate degree (B.A., International Relations) from Pomona College in Claremont, California, and his graduate degree (MBA, International Finance) from UCLA.

Mr. Ahearn spent his early career after undergraduate school in operational, finance and management positions for Los Angeles-based manufacturing firms. In the mid-1980's, he moved back to Arizona and co-founded companies that manufactured non-toxic, environmentally-sensitive pesticides, building materials and recycled plastics products.

In 1990, he joined the Arizona Department of Commerce Energy Office as the Manager of Planning and Policy. In that capacity he was responsible for implementation of the legislatively-mandated state Energy Policy. He began to write and speak extensively about electric industry restructuring as early as 1994, and was recruited to the Arizona Corporation Commission in late 1997 to advise the staff on electric industry competitive matters and to act as the agency's liaison to the Legislature.

He left the staff of the Corporation Commission in late 1999 to run for the office of Corporation Commissioner. In the period just prior to being appointed Director of RUCO, he had founded Ahearn & Associates, a consulting firm specializing in general business planning with a focus on renewable energy project development and representation of renewable energy firms.

Since coming to RUCO, Mr. Ahearn has participated in numerous energy-related boards, work groups and task forces at state, regional and federal levels. He chaired the Governor's Working Group on Renewable Energy and Energy Efficiency, and was a member of the Governor's Essential Service Task Force and the Consumer Energy Council of America's 2004 Transmission Forum project. He is currently a committee member of the North American Electric Reliability Council and the Committee on Regional Electric Power Cooperation.

### **DEPUTY DIRECTOR**

Ernest Nedd has been Deputy Director of RUCO for the past four years. He is a native Phoenician who attended elementary school in Phoenix and graduated from Phoenix Union High School. After attending Brown University in Providence, RI, Mr. Nedd served in the U.S. Army, including a tour of duty in Vietnam. Mr. Nedd then returned to Arizona and earned a B.S. degree in Political Science from Arizona State University and a J.D. degree from the College of Law at Arizona State.

Mr. Nedd has previously held positions with the State of Arizona as an Assistant Attorney General, Assistant Commissioner of the Real Estate Department and Chief Hearing Officer of the Department of Liquor Licenses and Control. He has served as a member of the City of Phoenix Board of Adjustment, the Phoenix Inner City Planning Committee and the Phoenix Surface Transportation Advisory Committee. Mr. Nedd also is a former Chairman of the Board of Directors of Valle del Sol, Inc. and he has served on the Board of Directors of the Valley Christian Centers. He currently is a member of the Natural Gas Committee of the National Association of State Utility Consumer Advocates and the Public Interest Advisory Committee of the National Gas Institute.

Mr. Nedd is a resident of the Coronado Historic Neighborhood in Central Phoenix and is active in the Greater Coronado Neighborhood Association.

### **CHIEF COUNSEL**

Scott Wakefield has been RUCO's Chief Counsel since 1998. He came to RUCO after serving as a Hearing Officer at the Corporation Commission, where he handled numerous rate case proceedings, consumer complaint hearings, and matters involving competition in the utility industry.

Mr. Wakefield received his Juris Doctorate cum laude from Arizona State University in 1990, and his Bachelor of Science degree in accounting magna cum laude from Arizona State in 1987. He has served on the board of directors for two non-profit organizations. He grew up and continues to live in Tempe.

Prior to his tenure as a hearing officer, Mr. Wakefield investigated and prosecuted investment fraud with the Corporation Commission's Securities Division. His work there resulted in caselaw outlining when investments in limited liability companies can be considered securities under the Arizona Securities Act.

Mr. Wakefield is knowledgeable on the process to appeal decisions of the Corporation Commission, and led the first RUCO success in appealing a Commission decision. He participates in RUCO's speaker's bureau, and has made numerous presentations on utility regulation and practice before the Arizona Corporation Commission in legal continuing education seminars.

### **CHIEF ACCOUNTING & RATES**

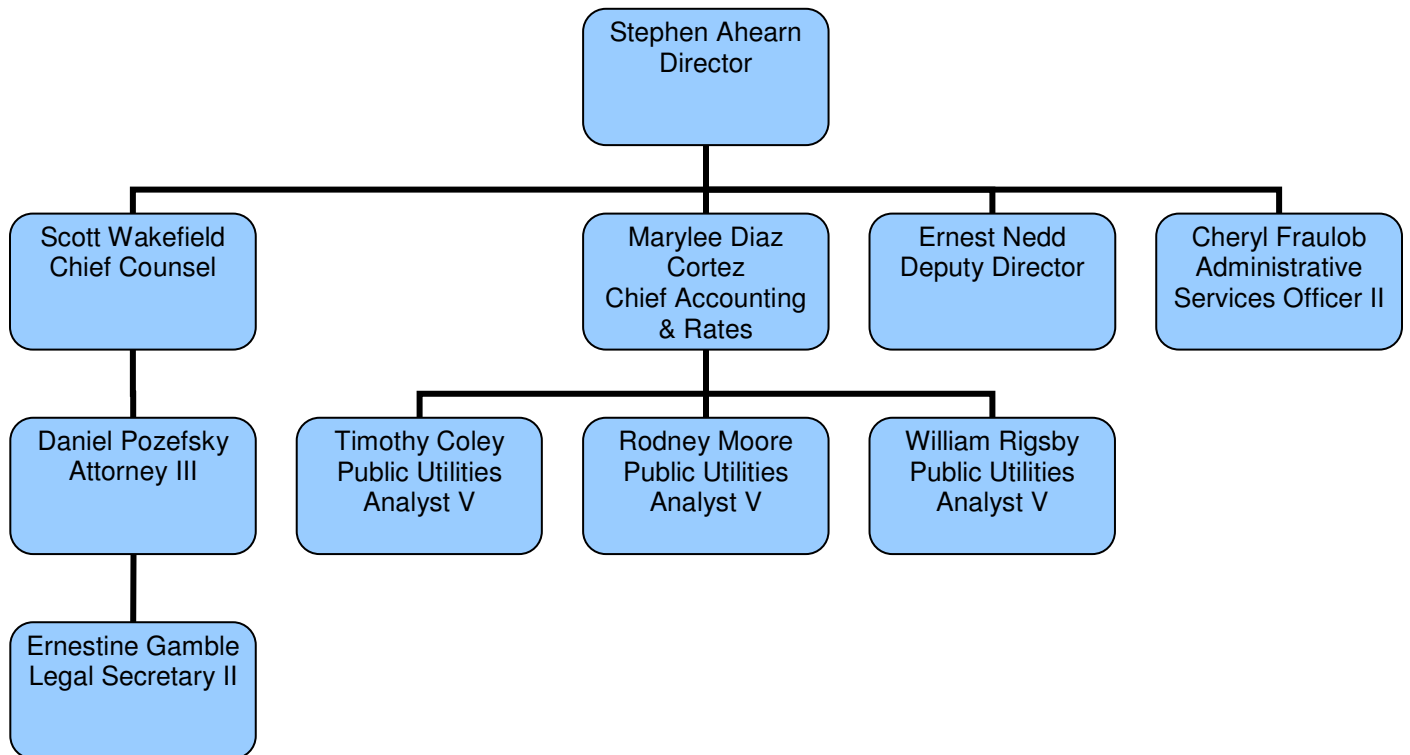
Marylee Diaz Cortez joined the Residential Utility Consumer Office in 1992, and has served as head of the technical division for the past 10 years. She is a graduate of the University of Michigan and a Certified Public Accountant licensed in Arizona and Michigan.

Prior to joining RUCO, Ms. Diaz Cortez worked for the public accounting firm of Larkin and Associates in the Detroit, Michigan area. Her private practice included regulatory consulting services. Between her experience at Larkin and Associates and RUCO she

has audited over 100 public utility companies including electric, gas, telephone, water, and sewer. She has provided expert testimony in as many cases.

Ms. Diaz Cortez works with a staff of three in-house auditors as well as outside expert witnesses. She is responsible for overseeing all testimony filed before the Arizona Corporation Commission. In her 15 years with RUCO, she has worked diligently and successfully to protect consumers from unjust utility rates.

## RESIDENTIAL UTILITY CONSUMER OFFICE ORGANIZATION CHART



## **RUCO AND THE REGULATORY PROCESS**

The Residential Utility Consumer Office (RUCO) was established by the Arizona Legislature in 1983 to represent the interests of residential utility ratepayers in rate-related proceedings involving public service corporations before the Arizona Corporation Commission (Commission).

Historically, utilities have had the exclusive right to provide services in designated areas. As legal monopolies, utilities are regulated to ensure that the public is charged just and reasonable prices. To establish the utilities' rates and charges, the Commission conducts public hearings and examines evidence and testimony presented by various concerned parties. RUCO represents the interests of Arizona's residents in these proceedings.

Every utility rate increase application filed with the Commission, regardless of the size of the utility, receives a preliminary review by RUCO. As a matter of policy, RUCO always intervenes and participates in rate cases involving Arizona's largest utilities. Intervention in the cases of smaller companies is decided on a case-by-case basis, with particular attention to the size of the increase sought, the rate history of the utility, and the availability of resources at RUCO. Generally, RUCO does not formally intervene in small cases to avoid causing unnecessary legal expenses for the small utility and its ratepayers.

RUCO is authorized 12 full-time employees, and often contracts with consultants for assistance in analyzing utilities' requests for changes in rates and preparing testimony.

## **THE RATEMAKING PROCESS**

The rates charged by Arizona's investor-owned utilities are established by the Commission. The Commission authorizes a utility to charge rates, which will recover expenditures which are appropriate and prudently incurred, and which provide an opportunity to earn fair return on the utility's capital investment.

A utility initiates the process to obtain a rate increase by filing an application with the Commission. The application must be based on a "test year" of actual expenses and investment during a recent twelve-month period. All of the utility's cost data are drawn from its own records. The Commission requires that the utilities follow a standardized system of accounting procedures that assures that the data can be easily reviewed and verified by the Commission, RUCO and others.

In its application, a utility may propose certain adjustments to its actual test year costs and investment. Historical costs and investment may be adjusted by annualizing changes which occurred during the test year, such as payroll increases or tax changes, making them appear as if they had been in effect for the entire year. In addition, historical costs may be normalized to eliminate the effects of abnormal



variations that actually occurred during the test year, such as weather-related changes in consumption. Other adjustments may be proposed to include the effects of known and measurable changes that occurred after the end of the test year, such as wage increases and certain costs related to recently completed construction projects.

Upon receiving the utility's application and written summary or testimony, the Commission's Staff reviews the application to confirm that it contains all the necessary accounting information. If the application is complete, the Commission's Staff prepares a letter of sufficiency. The determination of sufficiency triggers the Commission's "time clock" rule, which establishes a deadline by which the Commission Staff must file its Staff Report or testimony on the application, and a deadline by which the Commission must issue a final order on the application. A hearing date is fixed for an application that requires a hearing.

After the application is determined sufficient, RUCO and other interested parties are permitted to intervene in the case. As intervenors, parties have the right to obtain additional information from the utility to assist in their review of the application. In addition, intervenors may present evidence of their own on the application and may have their attorneys cross-examine other parties' witnesses and submit written briefs, which present their positions on the issues in the case.

When the Commission Staff has completed its investigation, it issues recommendations in a Staff Report or written testimony. Intervenors also provide their recommendations in the form of written testimony prepared by their analysts or consultants. The utility has the opportunity to respond through the filing of additional written testimony of its own.

In many cases, prior to the hearing on the application, the Commission holds public comment sessions in the service territory of the utility. These meetings are intended to allow customers to express their opinions about the rate request and to provide the Commission with information that the customers feel is relevant to the case. It is not required, nor is it expected, that customers making comments at these meetings be represented by counsel.

The Commission then holds a formal hearing on applications that require hearings. At the hearing, the utility, the Commission Staff, RUCO, and other intervenors present witnesses, offer evidence, and conduct cross-examination of other parties' witnesses on the issues raised in the filed reports and testimony. Issues commonly disputed in rate cases include: which expenses should be charged in rates to ratepayers; what a normal or prudent level of expenses should be; whether all of the utility's investments in physical facilities were prudently made and whether the facilities are needed for the provision of utility services; how much of a return the utility's shareholders should be allowed to earn on their investment; and how the cost of providing service should be allocated to, and recovered from, the utility's various classes of customers.

After the hearing is concluded, the Commission's Administrative Law Judge reviews the evidence and the parties' arguments and issues a Recommended Order. The Recommended Order sets forth a recommended decision on all contested issues and recommends how much of a rate increase, if any, the utility should receive. The parties are permitted to file exceptions to the Recommended Order, asking the Commission to disregard the conclusions of the Recommended Order and suggesting an alternate resolution. At a public meeting, the Commission considers the Recommended Order, and the parties' exceptions to it. The Commission can adopt or deny the Recommended Order as originally written, incorporate any of the suggested exceptions, or make its own amendments.

After the Commission issues its final decision, the parties have twenty days to request the Commission to reconsider its decision. If the Commission declines to grant a rehearing, the parties may appeal the decision to the Arizona Court of Appeals. Decisions of the Court of Appeals may be appealed to the Arizona Supreme Court. Filing an appeal does not prevent the rates approved by the Commission from taking effect.

## **RUCO'S BUDGET**

RUCO receives no money from the general tax fund. Rather, RUCO receives 100 percent of its operating budget from assessments of large utility companies that may, in turn, pass those charges on to their residential customers. In this way, those who benefit from RUCO's work fund its work. The utility ratepayers who pay these small assessments should consider their money well spent. The following reflects FY 2007 activity for the appropriation year 2007 and the approved amount for FY 2008.

<b>EXPENDITURE CATEGORIES</b>	<b>ACTUAL 2007</b>	<b>APPROVED 2008</b>
<b>PERSONAL SERVICES</b>	<b>722,100</b>	<b>745,600</b>
<b>EMPLOYEE EXPENSES</b>	<b>219,000</b>	<b>241,800</b>
<b>ALL OTHER</b>	<b>334,300</b>	<b>325,700</b>
<b>TOTAL</b>	<b>1,275,400</b>	<b>1,313,100</b>

## **RUCO'S FUNDING MECHANISM**

Pursuant to A.R.S. § 40-401.01, funding of RUCO is accomplished through an assessment made annually by the Commission. Each utility with annual residential revenues in excess of \$250,000, except those not required to hold Certificates of Convenience and Necessity, is assessed.

The disposition of assessment proceeds is governed by A.R.S. § 40-409. All monies received by the Commission under the provisions of A.R.S. § 40-401.01 are paid to the State Treasurer and placed in the RUCO Revolving Fund. Monies in the fund are used, subject to legislative appropriation, to operate RUCO pursuant to A.R.S. § 40-461. Appropriated funds not spent by the end of a fiscal year do not revert to the General Fund. They revert to the RUCO Revolving Fund and are used to calculate the ratepayer assessment for the next fiscal year. Based on the information available at the end of FY 2007, the assessment for FY 2008 was \$1,313,100.

## **RUCO'S CASE ANALYSES AND INTERVENTIONS**

As previously described, RUCO generally seeks to avoid intervening formally in small rate cases. Nevertheless, these cases are analyzed for potential cost impacts on ratepayers. Generally, rate applications for small utilities do not warrant formal RUCO intervention, which could unnecessarily increase costs to small utility ratepayers. The following table illustrates how RUCO's intervention activity over the past fiscal year compares to prior years:

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>NUMBER OF CASES ANALYZED</b>	<b>92</b>	<b>86</b>	<b>72</b>	<b>83</b>	<b>74</b>
<b>NUMBER OF RUCO INTERVENTIONS</b>	<b>13</b>	<b>13</b>	<b>10</b>	<b>13</b>	<b>4</b>

## **RUCO'S IMPACT**

The following table illustrates RUCO's impact on rate requests by utilities over the past fiscal year, compared to prior years:

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>AVERAGE UTILITY RATE REQUEST (MILLIONS \$)</b>	<b>10.7</b>	<b>2.2</b>	<b>180.2</b>	<b>17.8</b>	<b>429.50</b>
<b>AVERAGE RUCO RECOMMENDATION</b>	<b>7.8</b>	<b>.9</b>	<b>2.9</b>	<b>12.6</b>	<b>213.75</b>
<b>AVERAGE ACC APPROVED RATE</b>	<b>7.7</b>	<b>1.0</b>	<b>79.4</b>	<b>12.9</b>	<b>324.50</b>

## **CONSUMER EDUCATION AND OUTREACH ACTIVITIES**

Throughout calendar year 2007, RUCO has continued to engage in several activities designed to reach, interact with and educate residential utility ratepayers. As has been true for several years now, the primary vehicle for this outreach has been the agency's website. During 2007, RUCO has continued to upgrade this website in order to enhance the richness of its content and to make it more user-friendly.

Also throughout 2007, RUCO has continued to publish and distribute a bi-monthly, consumer-oriented electronic newsletter. The RUCO Watchdog is sent to a database of approximately 500 subscribers and contains information about ongoing rate cases and other items that are of interest to the agency's constituents. The Watchdog is published in both HTML and text formats to accommodate individual subscriber preferences.

RUCO maintains a speaker's bureau and responds to groups requesting presentations about the Office. During 2007, RUCO staff members have attended numerous public comment sessions when matters affecting particular communities were pending before the Corporation Commission. RUCO personnel have been present at public comment sessions in many of the state's counties and the agency has a goal of visiting each county at least once every two years. RUCO staff members utilize these opportunities to interact with local residential utility consumers and to provide those consumers with information regarding specific issues in their area.

RUCO will continue to seek out additional opportunities that may become available through technological advances to reach out to larger segments of its constituency in a continuing effort to provide useful information to residential utility ratepayers.

## CASE SUMMARIES

(Click [here](#) to review a list of acronyms and terms commonly used throughout the descriptions in these Case Summaries).

### ON-GOING CASES

(those not closed by June 30, 2007, listed in order of Docket-opening date).

#### **Tucson Electric Power Motion to Amend Decision No. 62103 – Docket No. E-01933A-05-0650**

In 1999, the ACC adopted Decision No. 62103, which approved with modifications a Settlement Agreement regarding issues arising from the implementation of retail electric competition and froze Tucson Electric Power Company's (TEP) rates through the end of 2008. On September 12, 2005, TEP filed a Motion to Amend Decision No. 62103 to provide for:

1. An extension beyond December 31, 2008, of the existing TEP rate freeze at TEP's Base Rate;
2. The retention of the current Competition Transition Charge ("CTC") amortization schedule;
3. An agreement of TEP not to seek rate treatment for certain generation assets; and
4. Effective after December 31, 2008, implement a mechanism to protect TEP and ratepayers from energy market volatility.

RUCO and other parties filed responses to the Motion. RUCO argued that, regardless of the merits of TEP's four proposals, there was no need to amend Decision No. 62103 to adopt them. On April 20, 2006, the ACC adopted Decision No. 68669, requiring that the Commission's Hearing Division conduct a hearing to resolve the dispute over whether TEP's rates in 2009 will be market-based, or set on a cost-of-service basis. A Procedural Order was issued requiring TEP to file a complete explanation of its proposal and scheduling a hearing for January 2007.

On August 18, 2006, TEP filed testimony outlining two alternative proposals to market-based rates for 2009. The Administrative Law Judge found that the proposals in TEP's testimony appeared to deviate from the initial proposal described in the Motion to Amend, scheduled dates for parties to file responsive testimony, and continued the hearing to February 2007. RUCO filed direct testimony on January 8, 2007, and filed surrebuttal testimony on February 8, 2007. The hearing was continued to allow parties to discuss settlement, but no settlement was reached and four days of hearing were held in March 2007 in Tucson.

At the hearing, TEP proposed a third alternative to resolve the matter. During the hearing, it became apparent that the Commission did not have adequate information in the docket to allow it to determine if any of TEP's alternative proposals would result in just and reasonable rates. TEP proposed that it file the information that would be required for a rate case for each of its proposals. TEP further indicated that the Commission should defer the termination of the Fixed CTC pending resolution of the rate case.

RUCO recommended that the Commission reject TEP's proposed procedural framework and instead answer the core question of whether the 1999 Settlement Agreement allowed TEP to charge market-based generation rates beginning in 2009.

In Decision No. 69568 (May 21, 2007), the Commission adopted TEP's proposed procedural framework and indicated that the forthcoming rate case filing would be consolidated with this docket. On July 2, 2007, TEP filed the required rate case application, which was assigned Docket No. E-01933A-07-0402. As of this writing, no procedural dates have been established for processing that case.

**Arizona-American Water Company, Inc. Transaction with Maricopa County Municipal Water Conservation District Number One – Docket No. W-01303A-05-0718**

On October 11, 2005, Arizona-American Water Company ("Arizona-American" or "Company") filed an application ("Original Application") with the Arizona Corporation Commission ("ACC" or "Commission") requesting certain approvals associated with a transaction between the Company's Aqua Fria Water District and the Maricopa County Municipal Water Conservation District Number One ("MWD") for the purpose of obtaining treatment, at a planned regional water treatment facility, of a portion of the Company's Central Arizona Water Project ("CAP") Colorado River water allocation.

Arizona-American's Original Application outlined the Company's plans to purchase water treatment capacity, through a capital lease arrangement, from MWD. At the time of the filing, MWD had plans to finance, build, and own a water treatment facility (the "White Tanks Plant") that could provide treated CAP water for the Company's Agua Fria District service territory located west of Phoenix and north of Interstate 10, between the White Tank Mountains and the Arizona Loop 101 freeway.

Arizona-American's Original Application sought the following:

- a) Commission pre-approval of and a finding of prudence for a capital lease agreement for CAP water treatment capacity between the Company and MWD;
- b) authority to issue debt;
- c) authority to transfer assets from the Company to MWD;

- d) revisions to an existing Company hook-up fee; and,
- e) preapproval of rate treatment and rate process for the proposed capital lease.

RUCO filed an Application to Intervene in the case on January 4, 2006. RUCO's request was granted by the ACC's Hearing Division in a Procedural Order dated January 10, 2006. The Procedural Order also set a hearing date on the matter.

On February 10, 2006, RUCO filed direct testimony on Arizona-American's Original Application. ACC Staff filed a Staff Report on the same date.

On March 2, 2006, the ACC Hearing Division issued a Procedural Order that granted Arizona-American's request to suspend the procedural schedule (and the hearing) because of issues that had developed between the Company and MWD.

After filing several status reports on capital lease negotiations between the Company and MWD, and appearing at a procedural conference on August 1, 2006, Arizona-American filed a revised application ("Revised Application") on September 1, 2006.

The Revised Application describes MWD's decision not to finance, build, and own the proposed White Tanks Plant. The Revised Application also states that the Company could construct, own and operate the White Tanks Plant, but would not be able to do so under the conventional rate-making process.

Arizona-American's Revised Application is requesting that the Commission approve increases to the Agua Fria District's existing Water Facilities Hook-Up Fee ("Hook-Up Fee") that will be used to finance construction of the White Tanks Plant. The Hook-Up Fee is currently being charged to builders that are operating in the Agua Fria District. Arizona-American presents two different options for increasing the existing Hook-Up Fee in the Company's Revised Application. Arizona-American is also seeking approval of an accounting order that will make the Company whole during the construction of the White Tanks Plant.

On September 21, 2006, RUCO filed comments on Arizona-American's Revised Application. RUCO's comments voiced no objection to the increases in hook-up fees requested by the Company. RUCO also stated its preference for the Company-proposed "Option 2 hook-up fee increase" presented in the Revised Application.

Between October 23, 2006, and December 6, 2006, MWD and numerous developers filed for intervention in the case.

On October 27, 2006, ACC Staff filed a Staff Report on the Company's Revised Application recommending approval of the Company's proposed hook-up fee and accounting order as requested.

On December 27, 2006, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that set the evidentiary hearing on the matter for 10:00 a.m. on March 19, 2007, at the ACC's Phoenix Offices at 1200 W. Washington.

On January 24, 2007, RUCO and other intervenors to the case filed direct testimony on Arizona-American's Revised Application. RUCO's direct testimony largely supported the Company's requests and reiterated the comments that RUCO filed earlier in September 2006.

RUCO filed rebuttal testimony on February 21, 2007. RUCO's rebuttal testimony continued to support the Company's requests and argued why it was premature to make any decisions on whether or not the Company's estimated costs represent impudent expenditures.

Surrebuttal testimony from RUCO was filed as scheduled on March 12, 2007. RUCO's surrebuttal testimony took issue with one of the components of a Company-proposed formula that would recalculate the amount of hook-up fee to be charged in the event of third party capacity sales.

The evidentiary hearing on Arizona-American's application was concluded on Monday, March 26, 2007. Initial and closing briefs were filed by the attorneys, who represented the various parties to the case on April 17, and 27, 2007. The ALJ is presently weighing all of the evidence presented during the proceeding and will write a Recommended Opinion and Order ("ROO"). The five ACC Commissioners will then vote on the ROO, as a final decision, at a scheduled open meeting. The five Commissioners can adopt the ROO as is, adopt an amended ROO, or reject the ROO altogether. Because the proceeding is not subject to the Commission's time clock rules that govern rate case proceedings, RUCO has no estimate as to when the five Commissioners will make a final decision on the matter.

**Gold Canyon Sewer Company – Application For A Determination Of The Fair Value Of Its Utility Plant And Property And For Increases In Its Rates And Charges For Utility Service Based Thereon - Docket No. SW-02519A-06-0015**

On January 13, 2006, Gold Canyon Sewer Company ("GCSC" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") seeking rate relief in the amount of \$2,474,767, which represented a 101 percent increase over adjusted operating revenues of \$2,451,576 recorded during the test year ended October 31, 2005.

On February 17, 2006, ACC Staff issued a Letter of Sufficiency informing the Company that its application met the filing requirements of A.A.C. R14-2-103.

On February 27, 2006, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that established the rules for discovery and the original filing dates for testimony.



On March 3, 2006, a second Procedural Order was issued rescheduling the hearing date.

RUCO filed a motion to intervene in the case with the ACC's Hearing Division on March 15, 2006.

On June 20, 2006, in response to a request by ACC Staff, the ALJ issued a revised procedural schedule that modified the filing dates for the remainder of the pre-filed testimony.

On August 9, 2006, the ALJ issued a Procedural Order scheduling a public comment session on September 13, 2006, at 6:00 p.m. in the Superstition Room of the Mountainbrook Village Activities Center at 5674 Marble Drive in Gold Canyon, AZ. Also on August 9, 2006, Commissioner Kris Mayes filed a letter in the docket addressing the odor issue in the case.

During the discovery phase of the proceeding (the period prior to hearing), RUCO's staff issued data requests to obtain further information on Gold Canyon's application and conducted a full audit and cost of capital analysis.

ACC Staff, RUCO and other intervenors to the case filed their direct testimony on Friday, June 16, 2006. RUCO's direct testimony position is as follows:

LINE NO.	DESCRIPTION	COMPANY OCRB/FVRB COST	RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 16,108,688	\$ 13,368,387
2	Adjusted Operating Income (Loss)	\$ 171,878	\$ 538,818
3	Current Rate Of Return (L2 / L1)	1.07%	4.03%
4	Required Operating Income (L5 X L1)	\$ 1,691,412	\$ 1,177,755
5	Required Rate Of Return On Fair Value Rate Base	10.50%	8.81%
6	Operating Income Deficiency (L4 - L2)	\$ 1,519,534	\$ 638,937
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	<span style="border: 1px solid black;">\$ 2,474,767</span>	<span style="border: 1px solid black;">\$ 1,040,595</span>
9	Adjusted Test Year Revenue	\$ 2,496,380	\$ 2,496,369
10	Proposed Annual Revenue (L8 + L9)	\$ 4,971,147	\$ 3,536,964
11	Required Percentage Increase In Revenue (L8 / L9)	99.13%	41.68%
12	Rate Of Return On Common Equity	10.50%	9.04%

Under RUCO's recommended rates, residential customers would see an increase of \$14.83 per month as opposed to the Company-proposed increase of \$35.34 per month. The Company filed rebuttal testimony on July 27, 2006. ACC Staff, and RUCO filed surrebuttal testimony on Wednesday, August 30, 2006. Gold Canyon filed a final round of rejoinder testimony on Wednesday, September 13, 2006.

In its surrebuttal testimony, RUCO revised its earlier recommendations downward as can be seen in the following comparison:

LINE NO.	DESCRIPTION	COMPANY REBUTTAL OCRB/FVRB	RUCO SURREB'L OCRB/FVRB
1	Fair Value Rate Base	\$ 15,743,898	\$ 13,062,308
2	Adjusted Operating Income (Loss)	\$ 241,749	\$ 552,940
3	Current Rate Of Return (L2 / L1)	1.54%	4.23%
4	Required Operating Income (L5 X L1)	\$ 1,653,109	\$ 1,115,521
5	Required Rate Of Return On Fair Value Rate Base	10.50%	8.54%
6	Operating Income Deficiency (L4 - L2)	\$ 1,411,360	\$ 562,581
7	Gross Rev. Conversion Factor (SURR RLM-1, Pg 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 2,298,590	\$ 916,239
9	Adjusted Test Year Revenue	\$ 2,496,380	\$ 2,496,380
10	Proposed Annual Revenue (L8 + L9)	\$ 4,794,970	\$ 3,412,619
11	Required Percentage Increase In Revenue (L8 / L9)	92.08%	36.70%
12	Rate Of Return On Common Equity	10.50%	8.60%

On Monday, September 25, 2006, during the scheduled pre-hearing conference, the Company informed the ALJ that their lead attorney was recovering from a recent injury and would not be able to take part in the hearing for about a month. The Company agreed to waive the time clock rules for 30 days. On September 28, 2006, the ALJ issued a revised Procedural Order rescheduling the evidentiary hearing on the Company's rate increase request. The original noticed hearing set for 10:00 a.m. on October 3, 2006, served as a public comment session for anyone who wanted to express an opinion on the Company's requested rate increase.

The rescheduled evidentiary hearing on the Company's request for a rate increase began on Wednesday, November 1, 2006. Witnesses from the Company and RUCO's cost of capital witness testified over a three day period. The hearing was recessed on Friday afternoon, November 3, 2006, and resumed on Monday, December 4, 2006.

During that time, RUCO's witness on revenue requirements testified along with witnesses for ACC Staff and Mr. Trevor Hill, a former official of Algonquin Water Resources of America. Prior to the resumption of the hearing on December 4, 2006, the Company filed the testimony of Mr. Hill (November 13, 2006) and on November 22, 2006, RUCO filed its response to Mr. Hill's testimony. After two full days, the hearing was recessed again on Tuesday afternoon, December 5, 2006, and resumed on Monday, December 11, 2006. During that time, the remaining ACC Staff witness testified along with three rebuttal witnesses for the Company.

The evidentiary hearing for Gold Canyon Sewer Company was concluded at 2:00 p.m. on Monday, December 11, 2006. Initial briefs were filed on Friday, January 19, 2007, by the attorneys who represent the various parties to the case. Reply briefs were filed as scheduled on Friday, February 2, 2007. After weighing all of the evidence presented during the proceeding, the ALJ issued his Recommended Opinion and Order ("ROO") on June 6, 2007.

On June 15, 2007, RUCO filed exceptions to the ROO, arguing against the ROO's recommendations on the excess capacity and rate case expense issues, which RUCO raised during the proceeding.

At the regular open meeting held on June 26, 2007, at 1200 W. Washington in Phoenix, the five Commissioners adopted two proposed amendments to the ROO. One was a Hearing Division amendment that corrected errors in the ROO and the other was an amendment submitted by Commissioner Kris Mayes, which reduced the amount of recoverable rate case expense from \$160,000 to \$70,000 (resulting in a \$0.34 reduction in monthly rates). After a lengthy debate and discussion on the ROO and other rate-lowering amendments (including one seeking adoption of RUCO's recommended hypothetical capital structure), which were submitted by Commissioner Mayes, the amended order passed by a final vote of three to two.

On July 18, 2007, RUCO filed an Application for Rehearing requesting that the ACC reconsider its decision to increase Gold Canyon's rates. RUCO stated in its filing that the 72.02 percent increase is not reasonable or fair to Gold Canyon customers under the facts and circumstances of the case. RUCO also stated that the final decision heavily favors the sewer company's interests over the interests of the ratepayers.

RUCO submitted the application on the final day of a twenty-day period in which parties to utility rate case proceedings can request a rehearing on final decisions rendered by the ACC. The Commission has twenty days to consider RUCO's request and act on it. If no action is taken during the twenty-day period, the decision stands.

On August 1, 2007, four of the five ACC Commissioners voted to approve RUCO's request to rehear three specific issues in the Gold Canyon rate case. The vote came after approximately thirty minutes of contentious debate among the five Commissioners during a regularly scheduled staff meeting at the ACC's Phoenix office. No date or time

has been set for the rehearing which will deal with the issues of excess capacity, hypothetical capital structure and rate case expense.

## UNS Gas, Inc. - Application for an Increase in Rates and Charges – Docket No. G-04204A-06-0463

On July 13, 2006, UNS Gas, Inc. ("UNS" or "Company"), a wholly-owned subsidiary of UniSource Energy Corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for the establishment of just and reasonable rates and charges designed to realize a reasonable rate of return on the fair value of the Company's property devoted to service in Arizona. UNS is seeking an increase in base rates of \$9,646,901, or approximately 7.00 percent, over the Company's test year revenues.

On August 14, 2006, ACC Staff issued a Letter of Sufficiency informing the Company that its application met the filing requirements of A.A.C. R14-2-103. On August 18, 2006, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

On September 8, 2006, the ALJ assigned to the case issued a Procedural Order that will govern the proceeding. The Procedural Order also consolidated Docket Nos. G-04204A-06-0013 and G-0424A-05-0813, which involved filings related to a review of the Company's purchased gas adjuster mechanism ("PGA") and a Commission inquiry into the prudence of UNS' gas procurement practices, respectively, into this rate case proceeding. The evidentiary hearing in the matter was scheduled for Monday, April 16, 2007, at 10:00 a.m.

ACC Staff (with the exception of two witnesses), RUCO and other intervenors to the case filed their direct testimony on Friday, February 9, 2007. RUCO is making the following recommendation:

REVENUE REQUIREMENT							
LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY RCND	(C) COMPANY FAIR VALUE	(D) RUCO ORIGINAL COST	(E) RUCO RCND	(F) RUCO FAIR VALUE
1	Adjusted Rate Base	\$ 161,661,362	\$ 220,694,068	\$ 191,177,714	\$ 144,680,196	\$ 197,766,154	\$ 171,223,175
2	Adjusted Operating Income (Loss)	\$ 8,428,981	\$ 8,428,981	\$ 8,428,981	\$ 10,560,998	\$ 10,560,998	\$ 10,560,998
3	Current Rate Of Return (Line 2 / Line 1)	5.21%	3.82%	4.41%	7.30%	5.34%	6.17%
4	Required Operating Income (Line 5 X Line 1)	\$ 14,223,179	\$ 14,223,179	\$ 14,204,479	\$ 11,480,374	\$ 11,480,374	\$ 11,480,374
5	Required Rate Of Return	8.80%	6.44%	7.43%	7.94%	5.81%	6.70%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 5,794,198	\$ 5,794,198	\$ 5,775,498	\$ 919,376		\$ 919,376
7	Gross Revenue Conversion Factor (Schedule RLM-1, Page 3)	1.6649	1.6649	1.6649			1.6370
8	Increase In Gross Revenue Requirement (Line 7 X Line 6)	\$ 9,646,901	\$ 9,646,901	\$ 9,615,767			\$ 1,505,003
9	Adjusted Test Year Revenue			\$ 47,169,528			\$ 47,280,434
10	Proposed Annual Revenue Requirement (Line 8 + Line 9)			\$ 56,785,295			\$ 48,785,437
11	Required Percentage Increase In Revenue (Line 8 / Line 9)			20.39%			3.18%
12	Rate Of Return On Common Equity			11.39%			9.64%

On February 15, 2007, the ALJ issued a Procedural Order, which granted ACC Staff's request for an extension to file the direct testimony of two of its witnesses. The Procedural Order revised the filing dates for rebuttal, surrebuttal and rejoinder testimony. As scheduled, UNS filed rebuttal testimony on Friday, March 16, 2007. ACC Staff, RUCO and other intervenors to the case filed their surrebuttal testimony on Wednesday, April 4, 2007. UNS filed a final round of rejoinder testimony on Wednesday, April 11, 2007.

The evidentiary hearing on UNS' rate request began as scheduled at 10:00 a.m. on Monday, April 16, 2007. The hearing continued through Friday, April 20, and on Tuesday and Wednesday, April 24, and 25. During the hearing, RUCO Chief Legal Counsel Scott Wakefield cross-examined expert witnesses who testified on behalf of the Company, ACC Staff and other intervenors to the case. RUCO staff members Marylee Diaz Cortez, Rodney Moore and William Rigsby were cross-examined by attorneys representing UNS.

The evidentiary hearing concluded on Wednesday afternoon, April 25, 2007. The ALJ will now review all of the testimony and evidence presented during the proceeding, including legal briefs that will be filed by the attorneys representing the parties to the case. On May 31, 2007, the ALJ granted ACC Staff's request for an extension of time for filing closing briefs. Opening briefs were filed by the parties to the case on Tuesday, June 5, 2007. Reply briefs were due on Tuesday, June 19, 2007. In addition to the legal briefs, the ALJ will also consider any correspondence or public comment from concerned ratepayers, and write a Recommended Opinion and Order ("ROO"). The ROO will then be voted on by the five ACC Commissioners during a scheduled open meeting. The five Commissioners can accept, amend or reject the ALJ's ROO. A final decision on UNS' rate request will probably not be made until sometime in September 2007.

#### **Arizona-American Water Company, Inc. - Sun City & Sun City West Wastewater Districts Rate Case – Docket No. WS-01303A-06-0491**

On July 28, 2006, Arizona-American Water Company, Inc. ("Arizona-American" or "Company"), a wholly-owned subsidiary of RWE AG, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval of a determination of the current fair value of the Company's utility plant and property; and for increases in rates and charges based thereon for utility service provided by Arizona-American's Sun City & Sun City West Wastewater Districts. Arizona-American is seeking revenue increases of \$1,606,495, or 35.84 percent in Sun City and \$2,337,050, or 51.49 percent for Sun City West. The Company is seeking an 11.75 percent return on common equity and an overall rate of return of 8.33 percent.

On August 18, 2006, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

On August 28, 2006, ACC Staff issued a letter of conditional sufficiency informing the Company that its application conditionally met the filing requirements of A.A.C. R14-2-103 subject to the filing of certain required billing information by ACC Staff.

On October 5, 2006, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that originally set the filing dates for written testimony and the evidentiary hearing on Arizona-American's request for an increase in rates.

On October 30, 2006, the ALJ issued a second Procedural Order that suspended the time clock in the proceeding until the Company provided ACC Staff with required volumetric billing determinants that will be used to develop a rate design for the Company. On February 15, 2007, the ALJ issued a revised Procedural Order, which established a new evidentiary hearing date and new filing deadlines for written testimony.

On May 7, 2007, the ALJ issued a Procedural Order that scheduled two public comment sessions for Wednesday, May 16, 2007. The public comment sessions gave Sun City and Sun City West ratepayers the opportunity to express their opinions regarding Arizona-American's proposed rate increases. The first public comment session was held at 10:30 a.m. at the Fairway Recreation Center Auditorium, 10600 West Peoria Avenue in Sun City. The second public comment session was held at 2:00 p.m. at the Palm Ridge Recreation Center, Summit Room, Hall A, 13800 West Deer Valley Drive, Sun City West.

On Wednesday, June 13, 2007, RUCO filed its direct testimony.

The Company filed rebuttal testimony on Monday, July 9, 2007. RUCO filed surrebuttal testimony on Tuesday, July 31, 2007.

A final round of rejoinder testimony was filed by Arizona-American on Monday, August 13, 2007.

The evidentiary hearing on the matter began as scheduled at 10:00 a.m. on Thursday, August 23, 2007, at the ACC's Phoenix office at 1200 W. Washington. During the hearing, the Company, RUCO and ACC Staff reached an agreement on how the Company's Tolleson obligation should be handled. This resulted in ACC Staff having to revise its recommended revenue requirement. Because RUCO needed additional time to review ACC Staff's revised schedules, the ALJ continued the hearing to Wednesday, September 5, 2007, at 9:30 a.m.

The evidentiary hearing on Arizona-American's request for rate relief was concluded around 1:00 p.m. on Wednesday, September 5, 2007. The Company filed final schedules on Friday, September 4, 2007. RUCO, ACC Staff and other intervenors filed final schedules on Friday, September 21, 2007. RUCO's and the Company's final positions on revenue requirements are as follows:

## SURREBUTTAL REVENUE REQUIREMENTS - SUN CITY WASTEWATER

LINE NO.	DESCRIPTION	(A) COMPANY FINAL POSITION	(B) RUCO FINAL POSITION
1	ADJUSTED RATE BASE	\$ 12,346,101	\$ 12,195,256
2	ADJUSTED OPERATING INCOME	89,497	124,090
3	CURRENT RATE OF RETURN (L2 / L1)	0.72%	1.02%
4	REQUIRED RATE OF RETURN	8.06%	7.23%
5	REQUIRED OPERATING INCOME (L4 * L1)	995,096	881,717
6	OPERATING INCOME DEFICIENCY (L5 - L2)	905,599	757,627
7	GROSS REVENUE CONVERSION FACTOR	1.64920	1.62867
8	GROSS REVENUE INCREASE	\$ 1,493,513	\$ 1,233,925
9	CURRENT REVENUES T/Y ADJUSTED	4,507,569	4,507,569
10	PROPOSED ANNUAL REVENUE (L8 + L9)	6,001,082	5,741,494
11	PERCENTAGE AVERAGE INCREASE	33.13%	27.37%
12	RETURN ON COMMON EQUITY	11.75%	10.03%

## SUREBUTTAL TESTIMONY REVENUE REQUIREMENTS SUN CITY WEST WASTEWATER

LINE NO.	DESCRIPTION	(A) COMPANY FINAL POSITION	(B) RUCO FINAL POSITION
1	ADJUSTED RATE BASE	\$ 16,544,545	\$ 16,440,658
2	ADJUSTED OPERATING INCOME	565,921	318,054
3	CURRENT RATE OF RETURN (L2 / L1)	3.42%	1.93%
4	REQUIRED RATE OF RETURN	8.06%	7.23%
5	REQUIRED OPERATING INCOME (L4 * L1)	1,333,490	1,188,660
6	OPERATING INCOME DEFICIENCY (L5 - L2)	767,569	870,606
7	GROSS REVENUE CONVERSION FACTOR	<u>1.65710</u>	<u>1.62867</u>
8	GROSS REVENUE INCREASE	<span style="border: 1px solid black; padding: 2px;">\$ 1,271,939</span>	<span style="border: 1px solid black; padding: 2px;">\$ 1,417,929</span>
9	CURRENT REVENUES T/Y ADJUSTED	4,546,525	4,546,525
10	PROPOSED ANNUAL REVENUE (L8 + L9)	5,818,464	5,964,454
11	PERCENTAGE AVERAGE INCREASE	27.98%	31.19%
12	RETURN ON COMMON EQUITY	11.75%	10.03%

The reason RUCO recommends a larger gross revenue increase for Sun City West Wastewater than the Company is because of a difference in opinion concerning certain rate base treatment in the district's Northwest Valley Treatment Facility ("NWVTF"). RUCO's proposed treatment of the NWVTF allows the Company additional expenses also. The Company and ACC Staff propose allocating 32 percent of Sun City West Wastewater District's NWVTF to the Anthem/Agua Fria Wastewater District. RUCO rejects the proposal of the allocation for two primary reasons. The allocation is based on a future projection that is not known and measurable at the present time. Only 2.25 percent of the NWVTF was being used by Anthem/Agua Fria Wastewater District in the test-year. RUCO consistently opposes projected adjustments outside the test-year.



The second concern RUCO had with the allocation was allowing one Certificate of Convenience & Necessity ("CC&N") allocate rate base to a completely separate CC&N.

The attorneys for the parties to the case will file closing briefs on Friday, October 19, 2007. A final round of reply briefs will follow this on Tuesday, November 6, 2007.

After the filing of briefs, the ALJ will weigh all of the evidence presented during the proceeding (including any correspondence or public comment from concerned ratepayers) and write a Recommended Opinion and Order ("ROO"). The five ACC Commissioners will then vote on the ROO, as a final decision, at a scheduled open meeting. The five Commissioners can adopt the ROO as is, adopt an amended ROO, or reject the ROO altogether.

A final decision on Arizona American's request will probably not be made until sometime during late December 2007.

#### **Arizona-American Water Company, Inc. Application for a Rate Increase – Anthem District - Docket No. W-01303A-06-0403**

On August 4, 2006, Arizona-American Water Company ("Company" or "AZ-AM") filed its rate application seeking a 66.23 percent revenue increase for its water division and 40.75 percent for its wastewater division based on a test year ending December 31, 2005. The Anthem community is currently approaching build out with nearly 8,300 occupied homes. The provisioning of Anthem with water and wastewater services was a feat in and of itself since there was no common water source to provide service at Anthem's inception in the late 1990s. The reasons for the Company's massive request are numerous. Among them are: to provide water for Anthem, Del Webb acquired an allocation of Colorado River water from the Ak-Chin Indian Community, along with delivery rights on the Central Arizona Project ("CAP"); delivery of the CAP water required the construction of a pumping station and a nine-mile pipeline; in order to provide a guaranteed source of water to meet high peak loads, the Company had to also arrange for two other capacity sources, one with the City of Phoenix and another gravity fed reservoir tank that overlooks Anthem; drinking water and waste collection required state-of-the-art treatment facilities, storage and distribution system to integrate a potable water supply from a renewable resource with a wastewater facility that produced Class A+ reusable effluent, to meet the new federal arsenic standard and to satisfy stringent fire-flow requirements.

To date, AZ-AM has been compensated for only a small fraction of this investment; and anticipates additional refunds to the developer of \$39.2 million by 2008. The Company expects to file another rate case as soon as this case concludes to recover the additional rate base that will be generated by these refunds.

RUCO intervened in this case and is recommending an increase of 34.88 percent for the water division and a 24.97 percent increase for the wastewater division. RUCO is recommending a 7.33 percent weighted cost of capital based on the Company's actual capital structure.

A hearing was held on this matter on May 29 – 31, 2007. The hearing was continued until July 13, 2007, for the testimony of Charles Enoch, Vice President of Pulte Homes. The Company has been ordered to report back to the Administrative Law Judge and the parties by August 17, 2007, with regard to several issues that remain outstanding. The briefing schedule has not yet been determined. A procedural schedule will follow the Company's report.

**UNS Electric, Inc. - Application for an Increase in Rates and Charges – Docket No. E-04204A-06-06-0783**

On December 15, 2006, UNS Electric, Inc. ("UNS" or "Company"), a wholly-owned subsidiary of UniSource Energy Corporation, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for the establishment of just and reasonable rates and charges designed to realize a reasonable rate of return on the fair value of the Company's property devoted to service in Arizona. UNS is seeking an increase in base rates of \$8,507,097, or approximately 5.50 percent, over the Company's test year revenues.

ACC Staff determined the application sufficient informing the Company that its application met the filing requirements of A.A.C. R14-2-103. RUCO has intervened in the case.

The evidentiary hearing in the matter was scheduled for Monday, April 16, 2007, at 10:00 a.m.

ACC Staff (with the exception of two witnesses), RUCO and other intervenors to the case filed their direct testimony on June 28, 2007. RUCO is recommending an increase in Gross Revenues of \$1,253,233, or approximately .79 percent over the Company's test year revenues.

Perhaps the largest issue in the case concerns the appropriate ratemaking treatment of the Black Mountain Generating Station. The Company purchases its power through Power Supply Agreements which expire on June 1, 2008. The Company is proposing in this case to purchase the Black Mountain Generating Station in order to meet a portion of its power requirements after the contracts terminate. Black Mountain Generating Station is a 90 MW generating station. The Company is proposing a stepped-in rate increase to pay for the costs in purchasing and operating the Black Mountain Generating Station. The Company is also proposing that the current Purchase Price Fuel Adjustment Clause be modified to incorporate some of the costs associated with the purchase of the Black Mountain Generating Station. RUCO opposes the Company's proposed ratemaking treatment. RUCO believes that the costs associated

with the purchase and operation of the new plant is unknown at this time and that the Company should only recover the costs once they become known. RUCO believes that the Company's proposal violates several regulatory accounting principles and should be rejected by the Commission.

The Company has filed its rebuttal testimony and the matter is scheduled for a hearing starting on September 10, 2007.

**Arizona-American Water Company, Inc.'s Sun City Water District Rate Case – Docket No. WS-01303A-07-0209**

On April 2, 2007, Arizona-American Water Company, Inc. ("Arizona-American" or "Company"), a wholly-owned subsidiary of RWE AG, filed an application and required supporting schedules with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval of a determination of the current fair value of the Company's utility plant and property; and for increases in rates and charges based thereon for water utility service provided by Arizona-American's Sun City Water District. Arizona-American is seeking a revenue increase of \$2,244,826, or a 29.53 percent increase over the Company's test year adjusted revenues of \$7,578,436.

On April 30, 2007, ACC Staff issued a sufficiency letter informing Arizona-American that its application met the filing requirements of A.A.C. R14-2-103. ACC Staff classified the Company as a Class A water utility.<sup>1</sup>

On May 8, 2007, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

On June 5, 2007, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order setting the times and dates for the filing of written testimony (by ACC Staff, RUCO and other intervenor witnesses) and an evidentiary hearing date scheduled for January 7, 2008, on Arizona-American's request for an increase in rates. The Procedural Order granted intervention status to RUCO. At the scheduled evidentiary hearing, expert witnesses from the Company, ACC Staff, RUCO and other intervenors will provide sworn testimony and be cross-examined by attorneys representing the parties to the case.

The June 5, 2007 Procedural Order also granted Sun City Taxpayers Association, Inc. intervention status in this proceeding.

On August 29, 2007, the Town of Youngtown filed a motion to intervene in the case with the ACC's Hearing Division.

---

<sup>1</sup> Based on the Company's requested increase over Test Year Revenues. Under the Commission's time clock rules, a decision on the Company's request for rate relief would have to be made within 360 days of the issuance of a letter of sufficiency (depending on the length of the evidentiary hearing).

On September 13, 2007, the ALJ issued another Procedural Order that granted the Town of Youngtown's intervention status.

Prior to filing written testimony, RUCO's analysts will conduct an audit of the Company and perform a cost of capital analysis to determine an appropriate rate of return on Arizona-American's investment in the Sun City Water District.

On October 15, 2007, all intervenors in the case will file direct testimony.

After the filing of written testimony, the evidentiary hearing and the filing of briefs by the attorneys who represent the parties to the case, the ALJ will weigh all of the evidence presented during the proceeding (including any correspondence or public comment from concerned ratepayers) and write a Recommended Opinion and Order ("ROO"). The five ACC Commissioners will then vote on the ROO, as a final decision, at a scheduled open meeting. The five Commissioners can adopt the ROO as is, adopt an amended ROO, or reject the ROO altogether.

Depending on the length of the hearing, a final decision on Arizona American's request will probably not be made until sometime during April or May of 2008.

#### **Arizona Water Company (Northern Group) Request for an ACRM Surcharge – Docket No. W-01445A-00-0962**

On May 15, 2007, Arizona Water Company ("Arizona Water" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to implement an arsenic cost recovery mechanism ("ACRM") for the Sedona and Rimrock Systems in the Company's Northern Group. Arizona Water's application seeks approval to implement a step 1 surcharge, which will allow the Company to recover the capital costs associated with recently constructed arsenic removal plant and equipment. The new arsenic removal plant is needed to reduce the level of arsenic in drinking water in order to comply with the U.S. Environmental Protection Agency's ("EPA") revised arsenic standard of not more than 10 parts per billion (the EPA's prior standard was 50 parts per billion). Arizona Water is permitted to file for a step 2 increase after one full year in order to recover the operating expenses associated with the Company's arsenic removal plant.

RUCO reviewed Arizona Water's filing and conducted an on-site inspection to insure that the arsenic removal plant is in service. RUCO filed an audit report on July 3, 2007, recommending that the Commission approve Arizona Water's request.

ACC Staff will file a similar report and write a Recommended Opinion and Order ("ROO") on the Company's request for an ACRM surcharge. The five ACC Commissioners will then vote on the ROO at a scheduled open meeting. The Commissioners can either approve, amend or reject the ROO. Because the proceeding is not governed by the ACC's time clock rules, no dates have been scheduled for the

filing of the ACC Staff report or the open meeting when the five ACC Commissioners will vote on the matter.

**CASES CLOSED IN FY 2007**  
**(listed in order of closing date)**

**Arizona-American Water Company, Inc.'s Paradise Valley Water District – Application For A Determination Of The Current Fair Value Of Its Utility Plant And Property And For Increases In Its Rates And Charges Based Thereon For Utility Service - Docket No. W-01303A-05-0405**

On July 3, 2005, Arizona-American Water Company, Inc. ("Arizona-American" or "Company"), a wholly-owned subsidiary of RWE AG, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval of a determination of the current fair value of the Company's utility plant and property; and for increases in rates and charges based thereon for utility service by Arizona-American's Paradise Valley Water District. During the test year ended December 31, 2004 ("Test Year"), Arizona-American provided water service to an average of 4,717 Paradise Valley customers of which approximately 4,411, or 93.5 percent, were residential customers.

Arizona-American is requesting a total increase of approximately \$277,980 or 5.48 percent more than the Paradise Valley Water District's adjusted Test Year operating revenues of \$5,070,680. In addition to the Company-proposed increase in revenues, Arizona-American is seeking approval for surcharges on both an arsenic cost recovery mechanism ("ACRM") and a public safety ("PS") surcharge mechanism. The ACRM surcharge will allow the Company to recover costs associated with meeting the U.S. Environmental Protection Agency's revised arsenic standard of 10 parts per billion. The PS surcharge will allow Arizona-American to recover all capital related costs for \$16 million in post-test year fire flow improvements that are scheduled to be completed before the Company's next scheduled general rate case in 2010.

On July 18, 2005, ACC Staff filed a sufficiency letter informing the Company that its application had met the requirement of A.A.C. R-14-2-103, and that the Company had been classified as a Class A water utility. RUCO filed a request to intervene in the case on Monday, August 1, 2005, and was granted intervenor status by the ACC's Hearing Division. On August 15, 2005, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order scheduling the evidentiary hearing in the case for 10:00 a.m. on March 27, 2006, at the Commission's offices at 1200 W. Washington in Phoenix.

As agreed upon by the parties to the case, RUCO filed direct testimony on January 17, 2006 (the original filing date was delayed in observance of the 2006 MLK holiday). A comparison of Arizona-American's proposed revenue increases and RUCO's recommendations are as follows:

LINE NO.	DESCRIPTION	COMPANY OCRB/FVRB AS FILED	RUCO OCRB/FVRB AS ADJUSTED
1	Adjusted Rate Base	\$ 11,651,216	\$ 10,898,953
2	Adjusted Operating Income (Loss)	\$ 742,769	\$ 1,045,440
3	Current Rate Of Return (Line 2 / Line 1)	6.38%	9.59%
4	Required Operating Income (Line 5 X Line 1)	\$ 913,455	\$ 773,826
5	Required Rate Of Return	7.84%	7.10%
6	Operating Income Deficiency (Line 4 - Line 2)	\$ 170,686	\$ (271,615)
7	Gross Revenue Conversion Factor (Schedule RLM-1, Page 2)	1.6286	1.6286
8	Increase In Gross Revenue Requirement (Line 7 X Line 6)	\$ 277,980	\$ (442,361)
9	Adjusted Test Year Revenue	\$ 5,070,680	\$ 5,070,680
10	Proposed Annual Revenue Requirement (Line 8 + Line 9)	\$ 5,348,660	\$ 4,628,319
11	Required Percentage Increase In Revenue (Line 8 / Line 9)	5.48%	-8.72%
12	Rate Of Return On Common Equity	12.00%	10.00%

The Company filed rebuttal testimony on February 13, 2006. On March 6, 2006, ACC Staff and RUCO filed surrebuttal testimony as scheduled. Rejoinder testimony was filed by the Company on March 16, 2006. The evidentiary hearing on the matter was conducted from March 27 2006 through April 3, 2006. On May 5, 2006, RUCO and the other parties to the case filed closing briefs. Reply briefs were filed on May 26, 2006.

After weighing all of the evidence presented during the proceeding, the ALJ issued her Recommended Opinion and Order ("ROO") on July 11, 2006. RUCO filed exceptions to the ROO on July 20, 2006. On Tuesday, July 25, 2006, an amended ROO was approved by four of the five ACC Commissioners.

## **Black Mountain Sewer Corporation Rate Case Filing – Docket No. SW-02361A-05-0657**

On September 16, 2005, Black Mountain Sewer Corporation ("BMSC" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") seeking rate relief in the amount of \$163,279, which represented a 13.52 percent increase over operating revenues of \$1,207,740 recorded during the test year ended December 31, 2004.

RUCO filed a request to intervene in the case with the ACC's Hearing Division on September 26, 2005. On October 7, 2005, the Hearing Division issued a notification granting RUCO's request.

On October 14, 2005, ACC Staff issued a deficiency letter informing BMSC that the Company's application failed to meet the sufficiency requirements of A.A.C. R-14-2-103 (because the application did not contain a cost of service study) and that ACC Staff would file a motion seeking administrative closure in the matter if the Company did not correct the deficiency or make other arrangements to remedy the situation by October 31, 2005.

On October 25, 2005, BMSC and ACC Staff filed a stipulation informing the Hearing Division that the parties had reached an agreement to issue a letter of sufficiency on condition that the Company provides specific information to ACC Staff within sixty days of a Procedural Order approving the stipulation. Both BMSC and ACC Staff also agreed that the rate case would be suspended in the event that the requested information was not provided to ACC Staff during the sixty-day period.

On October 27, 2005, the Administrative Law Judge ("ALJ") assigned to the case issued a Procedural Order that refused to grant approval of the agreement contained in the stipulation.

On November 1, 2005, ACC Staff docketed a sufficiency letter informing BMSC that the Company's application met the sufficiency requirements of A.A.C. R-14-2-103 and that the Company had been classified as a Class B wastewater utility<sup>2</sup>.

On November 2, 2005, the ALJ issued a Procedural Order to govern the proceeding. The evidentiary hearing in the matter was scheduled for Wednesday, June 7, 2006.

During the discovery phase of the proceeding, RUCO's staff issued data requests to obtain further information on BMSC's application and conducted a full audit and cost of capital analysis.

---

<sup>2</sup> Based on the Company's requested increase over test year Revenues. Under the Commission's time clock rules, a decision on the Company's request for rate relief would have to be made within 360 days (October 27, 2006) of the issuance of a letter of sufficiency (November 1, 2005).

ACC Staff, RUCO and the Town of Carefree filed direct testimony and exhibits on Thursday, March 9, 2006. RUCO recommended the following:

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED RATE BASE	\$ 887,449	\$ 1,372,834
2	ADJUSTED OPERATING INCOME	(14,233)	125,730
3	CURRENT RATE OF RETURN (L2 / L1)	-1.60%	9.16%
4	REQUIRED RATE OF RETURN	11.00%	9.45%
5	REQUIRED OPERATING INCOME (L4 * L1)	97,619	129,733
6	OPERATING INCOME DEFICIENCY (L5 - L2)	111,852	4,003
7	GROSS REVENUE CONVERSION FACTOR	1.4598	1.3663
8	GROSS REVENUE INCREASE	<u>\$ 163,279</u>	<u>\$ 5,470</u>
9	CURRENT REVENUES T/Y ADJUSTED	1,207,740	1,207,740
10	PROPOSED ANNUAL REVENUE (L8 + L9)	1,371,019	1,213,210
11	PERCENTAGE AVERAGE INCREASE	13.52%	0.45%

The principal reason for RUCO's lower recommended increase in gross revenues was RUCO's recommended accounting treatment of a sewage treatment capacity agreement between BMSC and the City of Scottsdale. In the Company's prior rate case proceeding, both RUCO and the Company were in agreement with RUCO's recommended accounting methodology. This methodology would have treated the Scottsdale capacity agreement as a capital lease (which would have been included in BMSC's rate base as opposed to an operating lease) and would be recovered on a dollar-for-dollar basis as an operating expense. Both RUCO and the Company argued during the prior case that the treatment of the Scottsdale capacity agreement as an operating lease was inconsistent with generally accepted accounting principals and would result in higher rates in a future rate case proceeding. Nonetheless, the ACC adopted the operating lease agreement accounting treatment that became a central issue in this proceeding.

The Company filed rebuttal testimony on April 6, 2006. ACC Staff, RUCO and the Town of Carefree filed surrebuttal testimony on May 4, 2006. The Company filed its rejoinder testimony on May 25, 2006.

The evidentiary hearing on the matter began on Wednesday, June 7, 2006, at 10:00 a.m. at the ACC's offices in Phoenix. The ALJ heard public comment on an odor problem from customers of BMSC. RUCO's attorney cross-examined witnesses for BMSC and RUCO's witnesses were cross-examined by the Company's lawyers on Thursday and Friday, June 8 and 9. The hearing concluded on Tuesday, June 20, 2006, after a ten-day break.



On Monday, July 31, 2006, the parties to the case met at the ACC's Phoenix office to discuss post-hearing schedules filed by ACC Staff. The parties to the case jointly filed a Stipulation and Request for Procedural Order to Extend the Briefing Schedule (the original briefing schedule had been established at the end of the evidentiary hearing). On August 1, 2006, the ALJ issued a Procedural Order granting the request.

Attorneys representing the parties to the case filed two rounds of closing briefs. Initial closing briefs were filed on August 21, 2006, and reply briefs were filed on September 5, 2006.

After weighing all of the evidence presented during the proceeding (including correspondence and public comment from concerned ratepayers), the ALJ issued his Recommended Opinion and Order ("ROO") on Monday, November 6, 2006, which rejected RUCO's recommended accounting treatment of the Scottsdale capacity agreement.

RUCO filed exceptions to the ROO on Wednesday, November 15, 2006. RUCO's exceptions dealt with the issues of accumulated deferred income taxes, the ROO's recommended accounting treatment of the Scottsdale capacity agreement, property tax expense, rate case expense, the cost of common equity and the refunding of hook-up fees that had been booked as contributions in aid of construction. The adoption of RUCO's position on each of the aforementioned issues would have resulted in lower rates to BMSC's ratepayers.

The ACC Commissioners adopted the ALJ's recommendations and passed the ROO by a vote of 5 to 0 during a regularly scheduled open meeting on November 22, 2006, overriding RUCO's exceptions that would have resulted in lower rates for all consumers.

**Far West Water and Sewer Company – Application For A Determination Of Its Rates And Charges For Sewer Utility Service Based Thereon - Docket No. WS-03478A-05-0801**

On November 1, 2005, Far West Water and Sewer Company ("Far West" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") seeking rate relief for the Company's wastewater operation in Yuma County.

Far West provides wastewater service to more than 5,500 customers in the foothills east of the city of Yuma. The Company is an Arizona corporation that operates from its office located at 13157 East 44th Street, Yuma, Arizona 85367.

According to information contained in the Company's application, Far West requested an increase in annual revenues of \$514,996, or 35 percent. The primary reason for the requested increase is to receive an authorized rate of return on its fair value rate base equal to 10.50 percent.

Far West's request was based on a test year ended December 31, 2004. The Company requested an increase in the flat rate for residential customers of 29.94 percent from \$20.00 to \$25.99 and an increase in the flat rate for commercial customers of 29.94 percent from \$40.00 to \$51.98. Rates for Recreational Vehicle Parks would increase by 29.94 percent from \$1.00 to \$1.50 per parking space.

The Company's current rates were approved in Decision No. 58607, dated May 1, 1994. The Company has never had a rate case for its sewer utility rates.

RUCO filed a request to intervene in the case with the ACC's Hearing Division on November 22, 2005, and was granted intervenor status on December 2, 2005.

On December 1, 2005, ACC Staff docketed a sufficiency letter informing Far West that the Company's application met the sufficiency requirements of A.A.C. R-14-2-103 and that the Company had been classified as a Class B wastewater utility.

On December 20, 2005, an Administrative Law Judge ("ALJ"), with the ACC's Hearing Division, issued a Procedural Order, which established the original dates for the filing of testimony and exhibits and for the evidentiary hearing on the matter.

On January 14, 2006, Far West filed a request to change the scheduled hearing date from July 11, 2006 to July 18, 2006.

On January 17, 2006, the ALJ assigned to the case issued an amended rate case Procedural Order establishing revised dates for the filing of testimony and exhibits and for the evidentiary hearing on the matter.

On April 11, 2006, ACC Staff and RUCO filed their direct testimony after conducting an analysis of Far West's application. RUCO recommended the following:

LINE NO.	DESCRIPTION	COMPANY OCRB/FVRB COST	RUCO OCRB/FVRB COST
1	Fair Value Rate Base	\$ 1,765,386	\$ 1,827,684
2	Adjusted Operating Income (Loss)	\$ (135,925)	\$ (39,031)
3	Current Rate Of Return (L2 / L1)	-7.70%	-2.136%
4	Required Operating Income (L5 X L1)	\$ 185,366	\$ 166,502
5	Required Rate Of Return On Fair Value Rate Base	10.50%	9.11%
6	Operating Income Deficiency (L4 - L2)	\$ 321,290	\$ 205,533
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	1.6029	1.4638
8	Increase In Gross Revenue Requirement (L7 X L6)	\$ 514,996	\$ 300,867
9	Adjusted Test Year Revenue	\$ 1,462,992	\$ 1,462,992
10	Proposed Annual Revenue (L8 + L9)	\$ 1,977,988	\$ 1,763,859
11	Required Percentage Increase In Revenue (L8 / L9)	35.20%	20.57%
12	Rate Of Return On Common Equity	10.50%	9.56%

Far West filed rebuttal testimony on May 9, 2006. ACC Staff and RUCO filed surrebuttal testimony on June 13, 2006. The Company filed rejoinder testimony on June 27, 2006.

In its surrebuttal testimony, RUCO lowered its recommended required revenue figure by \$72,197. RUCO's cost of capital witness also revised his recommended rate of return downward from 9.11 percent to 8.81 percent. The following is a comparison between the Company and RUCO's rebuttal positions:

LINE NO.	DESCRIPTION	COMPANY REBUTTAL OCRB/FVRB	RUCO SURREBUTTAL OCRB/FVRB
1	Fair Value Rate Base	\$ 1,794,270	\$ 1,815,563
2	Adjusted Operating Income (Loss)	\$ (52,733)	\$ 2,516
3	Current Rate Of Return (L2 / L1)	-2.94%	0.139%
4	Required Operating Income (L5 X L1)	\$ 188,398	\$ 159,951
5	Required Rate Of Return On Fair Value Rate Base	10.50%	8.81%
6	Operating Income Deficiency (L4 - L2)	\$ 241,131	\$ 157,436
7	Gross Revenue Conversion Factor (RLM-1, Pg 2)	<u>1.6055</u>	<u>1.4525</u>
8	Increase In Gross Revenue Requirement (L7 X L6)	<u>\$ 387,128</u>	<u>\$ 228,670</u>
9	Adjusted Test Year Revenue	\$ 1,467,317	\$ 1,462,992
10	Proposed Annual Revenue (L8 + L9)	\$ 1,854,358	\$ 1,691,662
11	Required Percentage Increase In Revenue (L8 / L9)	26.38%	15.63%
12	Rate Of Return On Common Equity	10.50%	9.04%

Under RUCO's revised recommended level of revenue, residential wastewater service would increase by \$1.55 per month (as opposed to the Company's rebuttal figure of \$4.23 per month), and RV park customers would see an increase of \$0.39 per space (as opposed to the Company's rebuttal figure of \$1.06 per space).

The evidentiary hearing on Far West's request for rate relief began as scheduled at 10:00 a.m. on Tuesday, July 18, 2006, in the Commission's Phoenix offices at 1200 W. Washington. The hearing concluded on Thursday afternoon, July 20, 2006.

The Company filed final schedules on Tuesday, August 15. ACC Staff and RUCO filed their final schedules on Tuesday, August 29. Closing briefs were filed by the parties on Friday, September 8, 2006. On September 29, 2006, the parties to the case agreed to extend the filing date for reply briefs by two weeks and on October 11, 2006, the parties to the case agreed to an additional five-day extension. The reply briefs were filed on Wednesday, October 18, 2006, as directed by a Hearing Division Procedural Order issued on October 12, 2006. On November 27, 2006, the ALJ who heard the case issued another Procedural Order that extended the deadline for a final Commission decision on the matter to January 27, 2006.

After weighing the evidence presented during the proceeding (including correspondence and public comment from concerned ratepayers), the ALJ issued her Recommended Opinion and Order ("ROO") on January 30, 2007. On February 8, 2007, RUCO filed exceptions to the ROO.

In addition to seeking lower levels of rate case and property tax expense, RUCO's exceptions also attempted to overturn the ALJ's decision not to adopt RUCO's recommendation to impute revenues that will not be collected from the Mesa Del Sol golf course. This issue involved a contractual obligation between Mesa Del Sol golf course and Far West, which requires the golf course to take the Company's effluent water at no charge while other golf courses in Far West's service territory must pay for effluent water. RUCO believed that the Company's ratepayers should not have to pay for the missing revenue from Mesa Del Sol and sought to lower rates by imputing the missing revenue and lowering the Company's revenue requirement.

During the regular open meeting held at the ACC's Phoenix Office on Tuesday, February 13, 2007, the five ACC Commissioners approved an amended ROO that recognizes that the Company will file another rate case sometime during the early part of 2008. The amended ROO passed by a vote of 5-0. Commissioner Kris Mayes withdrew her proposed amendment that supported RUCO's position on the Mesa Del Sol revenue imputation after Assistant Utility Division Director Steve Olea offered an opinion that supported the Company's arguments against the amendment.

#### **Arizona-American Water Company, Inc.'s Mohave Water & Wastewater Districts – Docket No. WS-01303A-06-0014**

On January 13, 2006, Arizona-American Water Company, Inc. ("Arizona-American" or "Company"), a wholly-owned subsidiary of RWE AG, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") requesting approval of a determination of the current fair value of the Company's utility plant and property; and for increases in rates and charges based thereon for utility service provided by Arizona-American's Mohave Water & Wastewater Districts. Arizona-American sought increases of 21.60 percent and 30.82 percent for the Company's water and wastewater districts, respectively.

On March 9, 2006, RUCO filed a motion to intervene in the case with the ACC's Hearing Division.

On March 10, 2006, ACC Staff issued a Letter of Sufficiency informing the Company that its application met the filing requirements of A.A.C. R14-2-103.

On March 22, 2006, the Administrative Law Judge ("ALJ") assigned to the matter issued the Procedural Order that governs the case.

On April 4, 2006, the parties to the case (i.e., the Company, ACC Staff and RUCO) filed a joint motion to change the dates established in the Procedural Order for the scheduled evidentiary hearing and the filing of testimony.

On April 13, 2006, the ALJ acted on the joint motion filed by the parties to the case and issued an amended Procedural Order.

The rescheduled evidentiary hearing on Arizona-American's request was held at the ACC's Phoenix office at 10:00 a.m. on Monday, November 13, 2006.

On August 25, 2006, ACC Staff filed a motion seeking an extension on the filing deadline for direct testimony. The ALJ granted the extension and issued a Procedural Order extending the filing dates for direct and rebuttal testimony.

During the discovery phase of the proceeding, RUCO's analysts conducted an audit of the Company and performed a cost of capital analysis to determine an appropriate rate of return on Arizona-American's investment in the Mohave Water and Wastewater Districts.

Direct testimony on the Company's application from ACC Staff, RUCO and other intervenors in the case was filed on September 5, 2006.

The Company filed rebuttal testimony on October 5, 2006. Arizona-American amended its requested increases in its rebuttal testimony to 19.66 percent and 32.18 percent for the Company's water and wastewater districts, respectively.

Surrebuttal testimony from RUCO and ACC Staff was filed on October 17, 2006 and October 18, 2006, respectively. A final round of rejoinder testimony from the Company was filed on November 1, 2006. In that testimony, the Company accepted all of RUCO's proposed labor expense adjustments.

At the evidentiary hearing, the ALJ weighed the evidence presented in the case and wrote a Recommended Opinion and Order ("ROO") that was filed on March 30, 2007. On May 1, 2007, an open meeting was scheduled where the five Commissioners could vote on the ROO as was, amend the ROO or reject the ROO altogether.

On May 1, 2007, the Commissioners voted for Commission Decision No. 69440 that authorized the following revenue requirements for Mohave Water and Wastewater Districts.

### REVENUE REQUIREMENTS – WATER

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>(A) DECISION NO. 69440</u>	<u>(B) RUCO RECOMMENDED</u>	<u>(C) COMPANY REQUESTED</u>
1	ADJUSTED RATE BASE	\$ 9,042,619	\$ 8,874,569	\$ 11,020,663
2	ADJUSTED OPERATING INCOME	448,585	564,654	331,852
3	CURRENT RATE OF RETURN (L2 / L1)	4.96%	6.36%	3.01%
4	REQUIRED RATE OF RETURN	7.71%	6.97%	7.93%
5	REQUIRED OPERATING INCOME (L4 * L1)	697,367	618,557	873,939
6	OPERATING INCOME DEFICIENCY (L5 – L2)	248,782	53,904	542,087
7	GROSS REVENUE CONVERSION FACTOR	1.6826	1.62867	1.62860
8	GROSS REVENUE INCREASE	\$ 405,175	\$ 87,792	\$ 882,842
9	CURRENT REVENUES T/Y ADJUSTED	4,093,006	4,310,501	4,089,750
10	PROPOSED ANNUAL REVENUE (L8 + L9)	4,498,181	4,398,293	4,972,592
11	PERCENTAGE AVERAGE INCREASE	9.90%	2.04%	21.59%

### REVENUE REQUIREMENTS – WASTEWATER

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>(A) DECISION NO. 69440</u>	<u>(B) RUCO RECOMMENDED</u>	<u>(C) COMPANY REQUESTED</u>
1	ADJUSTED RATE BASE	\$ 435,791	\$ 419,390	\$ 664,456
2	ADJUSTED OPERATING INCOME	(34,644)	(57,937)	(36,607)
3	CURRENT RATE OF RETURN (L2 /L1)	- 7.95%	-13.81%	-5.51%
4	REQUIRED RATE OF RETURN	7.71%	6.97%	7.93%
5	REQUIRED OPERATING INCOME (L4 * L1)	33,608	29,231	52,691
6	OPERATING INCOME DEFICIENCY (L5 – L2)	68,252	87,168	89,298
7	GROSS REVENUE CONVERSION FACTOR	1.6286	1.26461	1.62860
8	GROSS REVENUE INCREASE	\$111,157	\$ 110,234	\$ 145,431
9	CURRENT REVENUES T/Y ADJUSTED	472,010	474,629	472,010
10	PROPOSED ANNUAL REVENUE (L8 + L9)	583,167	584,863	617,441
11	PERCENTAGE AVERAGE INCREASE	23.55%	23.23%	30.81%

As can readily be seen in the two revenue requirement tables above, RUCO believes its decision to intervene in the Mohave Water and Wastewater Districts rate case substantially influenced a more favorable outcome for Mohave's 15,108 rate paying customers. Approximately 94 percent of those customers are residential ratepayers. RUCO's efforts and involvement with the case saved Mohave ratepayers over one-half million dollars.

#### **Southern California Edison's Devers-Palo Verde II Line Siting Application – Docket No. L-00000A-06-0295-00130**

On May 1, 2006, Southern California Edison Company (SCE) filed an application with the Arizona Power Plant and Transmission Line Siting Committee (Committee) for a Certificate of Environmental Compatibility (CEC) for a high-voltage transmission line from the Devers substation in California to the area near the Palo Verde Nuclear Generating Station in Arizona. Pursuant to the statutes governing the issuance of CECs, an initial ruling regarding a CEC application is made by the Committee, but parties can seek review of that decision by the Arizona Corporation Commission ("Commission"). RUCO determined that the application could have impacts on retail rates paid by Arizona residential utility customers, and intervened in the matter.

The Committee held 15 days of hearing on the application between June 2006 and February 2007. RUCO's director provided testimony to the Committee on the potential impacts of the proposed transmission line. RUCO filed a closing brief pursuant to the established procedural schedule.

In March 2007, the Committee granted SCE's application, with a number of conditions. Several parties request that the Commission review the Committee's decision granting the CEC. RUCO and other parties filed briefs with the Commission. RUCO recommended that the Commission, as part of its statutorily-required balancing of interests, consider retail price impacts and positive and negative reliability impacts of the proposed line, the impacts of the proposed line on Arizona's future capacity needs, and the environmental impacts of the proposed line. In May 2007, the Commission held two days of open meeting for oral argument, public comment and consideration of the matter. In Decision No. 69638 (June 6, 2007), the Commission denied the CEC.

#### **Arizona Public Service Company Rate Case Filing – Docket No. E-01345A-05-0816**

On November 4, 2005, Arizona Public Service Company ("APS" or "Company"), the largest investor-owned electric utility in the state, filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for a permanent rate increase. APS



sought an increase of \$449.6 million in base rates<sup>3</sup> or a 21.1 percent increase on average for the Company's jurisdictional electric operations.

On November 22, 2005, RUCO filed a motion to intervene in the case.

After discussions with ACC Staff, APS agreed to file an amended application containing updated operating information on certain generation facilities that were either included in rate base as a result of the Company's prior rate case Settlement Agreement (i.e., the former generation assets of Pinnacle West Energy Corporation) or were acquired on the open market during 2005 (i.e., the Company's Sundance generation facility purchased from PPL Sundance Energy, LLC).

On January 31, 2006, APS filed its amended application, which contains information on a test year ended September 30, 2005 (the Company had originally chosen a test year ended December 31, 2004).

On March 28, 2006, the ACC's Chief Administrative Law Judge ("CALJ") issued a Procedural Order that established the rules for discovery and the original filing dates for testimony.

On March 30, 2006, RUCO filed a motion to modify the procedural schedule.

On April 5, 2006, the CALJ issued an amended rate case Procedural Order revising the dates set forth in the Procedural Order filed on March 28, 2006.

During the discovery phase of the proceeding (the period prior to hearing), RUCO issued data requests to obtain further information on APS' application and conducted a full audit and cost of capital analysis.

ACC Staff, RUCO and other intervenors to the case filed direct testimony on all issues, except for rate design, on Friday, August 18, 2006. RUCO's recommendations on required revenue were as follows:

---

<sup>3</sup> According to the application filed by APS, these figures did not include a Company-proposed Environmental Improvement Charge, which when added to the base rate request would increase the total to \$453.9 million or 21.3 percent.

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY RCND	(C) COMPANY FAIR VALUE	(D) RUCO ORIGINAL COST	(E) RUCO RCND	(F) RUCO FAIR VALUE
1	ADJUSTED RATE BASE	\$ 4,466,697	\$ 7,774,812	\$ 6,120,755	\$ 4,463,358	\$ 7,728,180	\$ 6,095,769
2	OPERATING INCOME	12,780			82,456		
3	ADJUSTMENT FOR HEDGE VALUE	<u>103,124</u>			<u>103,124</u>		
4	ADJUSTED OPERATING INCOME	115,904	115,904	115,904	185,580	185,580	185,580
5	CURRENT RATE OF RETURN (L4 / L1)	2.59%	1.49%	1.89%	4.16%	2.40%	3.04%
6	REQUIRED OPERATING INCOME (L7 * L1)	389,943	389,943	389,943	327,164	327,164	327,164
7	REQUIRED RATE OF RETURN	8.73%	5.02%	6.37%	7.33%	4.23%	5.37%
8	OPERATING INCOME DE(SUF)ICIENCY (L5 - L2)	377,163			244,708		
9	ADJUSTMENT FOR HEDGE VALUE	<u>(103,124)</u>			<u>(103,124)</u>		
10	ADJUSTED OPERATING INCOME DEFICIENCY	274,039	274,039	274,039	141,584	141,584	141,584
11	GROSS REVENUE CONVERSION FACTOR	<u>1.6407</u>	<u>1.6407</u>	<u>1.6407</u>	<u>1.6407</u>	<u>1.6407</u>	<u>1.6407</u>
12	GROSS REVENUE INCREASE	618,812			401,492		
13	ADJUSTMENT FOR HEDGE VALUE	<u>(169,196)</u>			<u>(169,196)</u>		
14	REQUESTED INCREASE IN GROSS REVENUES	<u>\$ 449,616</u>	<u>\$ 449,616</u>	<u>\$ 449,616</u>	<u>\$ 232,297</u>	<u>\$ 232,297</u>	<u>\$ 232,297</u>
15	ENVIRONMENTAL IMPROVEMENT CHARGE	<u>4,315</u>	<u>4,315</u>	<u>4,315</u>	<u>-</u>	<u>-</u>	<u>-</u>
16	TOTAL INCREASE IN RATES	\$ 453,931	\$ 453,931	\$ 453,931	\$ 232,297	\$ 232,297	\$ 232,297
17	CURRENT RETAIL REVENUES T/Y ADJUSTED	\$ 2,127,322	\$ 2,127,322	\$ 2,127,322	\$ 2,132,229	\$ 2,132,229	\$ 2,132,229
18	PROPOSED ANNUAL REVENUE (L16 + L17)	\$ 2,581,253	\$ 2,581,253	\$ 2,581,253	\$ 2,364,526	\$ 2,364,526	\$ 2,364,526
19	PERCENTAGE AVERAGE INCREASE	21.34%	21.34%	21.34%	10.89%	10.89%	10.89%
20	INCREMENTAL INCREASE (NET OF EMERGENCY RATES)	14.87%			4.44%		

Direct testimony on rate design was filed on Friday, September 1, 2006. APS filed rebuttal testimony; RUCO and other parties filed surrebuttal testimony; and APS filed a final round of testimony. The hearing commenced on October 10, 2006, and continued through December 15, 2006. The Parties filed closing briefs, and the CALJ filed a Recommended Opinion and Order ("ROO") on April 27, 2007. RUCO and other parties filed exceptions to the ROO.

The Commission considered the ROO and Commissioner-proposed amendments over five days of Open Meeting held June 13 to 19, 2007. By a vote of 4-1, the Commission approved Decision No. 69663 authorizing a rate increase of 12.33 percent, effective July 1, 2007.



## **THE RESIDENTIAL UTILITY CONSUMER OFFICE STAFF**

### **DIRECTOR**

Stephen Ahearn

### **DEPUTY DIRECTOR**

Ernie Nedd

### **ADMINISTRATIVE SERVICES OFFICER**

Cheryl Fraulob

### **LEGAL**

Scott Wakefield, Chief Counsel

Daniel Pozefsky, Staff Attorney

Ernestine Gamble, Legal Secretary

### **TECHNICAL**

Marylee Diaz Cortez, Chief Accounting & Rates

Timothy Coley, Public Utilities Analyst

Rodney Moore, Public Utilities Analyst

William Rigsby, Public Utilities Analyst



## **APPENDIX**

### **COMMONLY-USED ACRONYMS AND TERMS**

**The following terms are used throughout the case summaries:**

ACC – Arizona Corporation Commission  
ACRM – arsenic cost recovery mechanism  
ALJ – Administrative Law Judge  
APS – Arizona Public Service Company  
AZ-AM – Arizona American Water Company  
BMSC – Black Mountain Sewer  
CALJ - Chief Administrative Law Judge  
CAP - Central Arizona Project  
CC&N – Certificate of Convenience & Necessity  
CEC – Certificate of Environmental Compatibility  
Commission – Arizona Corporation Commission  
Committee – Arizona Power Plant and Transmission Line Siting Committee  
CTC – competition transition charge  
EPA – U.S. Environmental Protection Agency  
GCSC – Gold Canyon Sewer Company  
MWD – Maricopa County Municipal Water Conservation District Number One  
NWVTF – Northwest Valley Treatment Facility  
PGA – purchased gas adjustor mechanism  
PS – public safety surcharge mechanism  
ROO - Recommended Opinion and Order  
RUCO – Residential Utility Consumer Office  
SCE – Southern California Edison  
Staff – ACC Utilities Division Staff  
TEP – Tucson Electric Power Company

**THE RESIDENTIAL UTILITY CONSUMER OFFICE (RUCO) IS AN EQUAL OPPORTUNITY,  
REASONABLE ACCOMMODATION EMPLOYER.**